Multiple Agency Fiscal Note Summary

Bill Number: 5453 SB	Title: Retirement plans 1 & 2

Estimated Cash Receipts

NONE

Agency Name	2021-23		2023-25		2025-27	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts						
Loc School dist-SPI	Fiscal note not available					
Local Gov. Other	No fiscal impact					
Local Gov. Total						

Estimated Operating Expenditures

Agency Name	2021-23				2023-25				2025-27			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Administrative Office of the Courts	Non-zero but indeterminate cost and/or savings. Please see discussion.											
Office of State Treasurer	.0	0	0	0	.0	0	0	0	.0	0	0	0
Department of Retirement Systems	.5	0	0	283,454	.0	0	0	0	.0	0	0	0
State Investment Board	.0	0	0	0	.0	0	0	0	.0	0	0	0
Washington State Patrol	Non-zero but indeterminate cost and/or savings. Please see discussion.											
Criminal Justice Training Commission	.0	0	0	0	.0	0	0	0	.0	0	0	0
Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board	.0	0	0	0	.0	0	0	0	.0	0	0	0
Actuarial Fiscal Note - State Actuary	.0	(800,200,000)	(800,200,000)	(800,200,000)	.0	(939,900,000)	(939,900,000)	(939,900,000)	.0	(488,300,000)	(488,300,000)	(488,300,000)
Total $	**0.5**	**(800,200,000)**	**(800,200,000)**	**(799,916,546)**	**0.0**	**(939,900,000)**	**(939,900,000)**	**(939,900,000**	**0.0**	**(488,300,000)**	**(488,300,000)**	**(488,300,000)**

Agency Name	2021-23			2023-25			2025-27		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Loc School dist-SPI	Fiscal note not available								
Local Gov. Other	No fiscal impact								
Local Gov. Total									

Estimated Capital Budget Expenditures

FNPID: 62887

Agency Name	2021-23			2023-25			2025-27		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Administrative Office of the Courts	.0	0	0	.0	0	0	.0	0	0
Office of State Treasurer	.0	0	0	.0	0	0	.0	0	0
Department of Retirement Systems	.0	0	0	.0	0	0	.0	0	0
State Investment Board	.0	0	0	.0	0	0	.0	0	0
Washington State Patrol	.0	0	0	.0	0	0	.0	0	0
Criminal Justice Training Commission	.0	0	0	.0	0	0	.0	0	0
Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board	.0	0	0	.0	0	0	.0	0	0
Actuarial Fiscal Note - State Actuary	.0	0	0	.0	0	0	.0	0	0
Total $	0.0	0	0	0.0	0	0	0.0	0	0

Agency Name	2021-23			2023-25			2025-27		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Loc School dist-SPI	Fiscal note not available								
Local Gov. Other	No fiscal impact								
Local Gov. Total									

Estimated Capital Budget Breakout

Prepared by: Jane Sakson, OFM	**Phone:** 360-902-0549	**Date Published:** Preliminary 3/17/2021

Judicial Impact Fiscal Note

Bill Number: 5453 SB	Title: Retirement plans 1 & 2	Agency: 055-Administrative Office of the Courts

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Expenditures from:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated Capital Budget Impact:

NONE

The revenue and expenditure estimates on this page represent the most likely fiscal impact. Responsibility for expenditures may be subject to the provisions of RCW 43.135.060.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

X If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

Legislative Contact	Amanda Cecil	Phone: 360-786-7460	Date: 02/18/2021
Agency Preparation:	Sam Knutson	Phone: 360-704-5528	Date: 02/18/2021
Agency Approval:	Ramsey Radwan	Phone: 360-357-2406	Date: 02/18/2021
OFM Review:	Gaius Horton	Phone: (360) 819-3112	Date: 02/18/2021

166,685.00

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact on the Courts

Please see attached Judicial Impact Note (JIN).

II. B - Cash Receipts Impact

II. C - Expenditures

Part III: Expenditure Detail

III. A - Expenditure By Object or Purpose (State)

Non-zero but indeterminate cost and/or savings. Please see discussion.

III. B - Expenditure By Object or Purpose (County)

Non-zero but indeterminate cost and/or savings. Please see discussion.

III. C - Expenditure By Object or Purpose (City)

Non-zero but indeterminate cost and/or savings. Please see discussion.

III. D - FTE Detail

NONE

III. E - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B1 - Expenditures by Object Or Purpose (State)

NONE

IV. B2 - Expenditures by Object Or Purpose (County)

NONE

IV. B3 - Expenditures by Object Or Purpose (City)

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and dexcribe potential financing methods

NONE

Part II: Narrative Explanation

This bill would create a benefit improvement for members of law enforcement officers and firefighter's retirement plan 2. The bill would merge law enforcement and firefighter's retirement plans with teacher's retirement plans.

Part II.A – Brief Description of what the Measure does that has fiscal impact on the Courts

Section 218 and Section 233 – Would provide that any employer, member or beneficiary who knowingly makes a false statement or falsifies or permits to be falsified any record or records of the retirement system in an attempt to defraud the retirement system would be guilty of a Class B felony.

II.B - Cash Receipt Impact

None.

II.C – Expenditures

Indeterminate, but not expected to be significant. There is no data available to estimate the number of Class B felonies that would result from this bill.

Judicial education would be required. This would be managed within existing resources.

Individual State Agency Fiscal Note

Bill Number: 5453 SB	Title: Retirement plans 1 & 2	Agency: 090-Office of State Treasurer

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

ACCOUNT	FY 2022	FY 2023	2021-23	2023-25	2025-27
Washington Law Enforcement Officers & Firefighters' System Plan II Retirement Ac-Non-Appropriated 829-6	430,000,000		430,000,000		
LEOFF Retirement System Benefits Improvement Account-Non-Appropriated 838-6	(430,000,000)		(430,000,000)		
Total $					

Estimated Operating Expenditures from:
NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

[X] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

[ ] If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

Legislative Contact:	Amanda Cecil	Phone: 360-786-7460	Date: 02/18/2021
Agency Preparation:	Dan Mason	Phone: (360) 902-8990	Date: 02/25/2021
Agency Approval:	Dan Mason	Phone: (360) 902-8990	Date: 02/25/2021
OFM Review:	Ramona Nabors	Phone: (360) 902-0547	Date: 02/28/2021

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

SB 5453 directs the state treasurer to transfer on July 1, 2021, the sum of the total available balance of the local law enforcement officers' and firefighters' retirement system benefits improvement account from the local law enforcement officers' and firefighters' retirement system benefits improvement account to the law enforcement officers' and firefighters' plan 2 retirement fund.

In addition, this bill creates the merged LEOFF 1 / TRS 1 retirement plan fund and allows the account to retain its earnings from investments.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

The department of retirement systems (DRS) provided the transfer estimate.

Assumptions:
1. OST will converse with the Senate, House, and OFM requesting and receiving concurrence relating to OST requesting SIB to transfer the investment ownership to fulfill the legislative intent of section 102(3). Please note, similar action occurred in 2019 under chapter 366, laws of 2019, section 2(2) (HB 2144).
2. The law enforcement officers' and firefighters' plan 2 retirement fund is the Washington law enforcement officers' and firefighters' system plan 2 retirement fund created under RCW 41.50.075.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part IVB*

NONE

Part V: New Rule Making Required

Individual State Agency Fiscal Note

Bill Number: 5453 SB	Title: Retirement plans 1 & 2	Agency: 124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	1.0	0.0	0.5	0.0	0.0
Account					
Department of Retirement Systems Expense Account-State 600-1	283,454	0	283,454	0	0
Total $	283,454	0	283,454	0	0

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☒ Requires new rule making, complete Part V.

Legislative Contact:	Amanda Cecil	Phone: 360-786-7460	Date: 02/18/2021
Agency Preparation:	Amy McMahan	Phone: 360-664-7307	Date: 02/23/2021
Agency Approval:	Tracy Guerin	Phone: 360-664-7312	Date: 02/23/2021
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 02/23/2021

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill contains several provisions for Plans 1 and 2 of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF 1 and LEOFF 2) and Plan 1 of the Teachers' Retirement System (TRS 1).

LEOFF 1 Benefit Enhancements:

Section 242(2) states that LEOFF Plan 1 "active members, term-vested members, retirees and survivors eligible for benefits… shall be eligible to receive the plan 1 lump sum defined benefit". The lump sum defined benefit amount, as section 242(3) indicates, is $20,000 and is payable on January 3, 2022 or the member's retirement date, whichever is later. Section 242(3) also states that if multiple survivor beneficiaries exist as a result of a LEOFF 1 member's death, the lump sum will be divided equally amongst the survivor beneficiaries. Additionally, section 242(4) states that if the LEOFF 1 member is active or term-vested, the lump sum benefit will accrue interest as determined by the director of retirement systems from January 3, 2022 until distribution of the lump sum takes place.

Furthermore, section 219(3) provides a new annuity purchase window for LEOFF 1 retirees from January 1, 2022 to June 1, 2022. This provision is only available to LEOFF 1 members whose retirement was effective prior to the effective date of section 219, which is immediate.

LEOFF 2 Benefit Enhancements:

Section 101 provides a benefit improvement to LEOFF 2 retirees with more than 15 years of service credit in the form of a one-time lump sum payment to retired members. Section 104(3) states that this lump sum defined benefit will be $20,000 for every eligible LEOFF 2 member or survivor, and is payable on January 3, 2022.

Additionally, section 103(2)(b) provides active LEOFF 2 members that have more than 15 years of service credit an additional multiplier of 2.5% of the member's final average salary (FAS) for years of service above 15 and up to 26. This enhancement would begin on January 1, 2022.

The amount transferred from the total available balance of the LEOFF retirement system benefits improvement account to the LEOFF Plan 2 retirement fund, as indicated in section 102(3), will go towards these benefit enhancements.

LEOFF 1/TRS 1 Merger:

To improve the actuarial soundness of TRS Plan 1, while maintaining the same for LEOFF Plan 1, section 201 intends to merge TRS Plan 1 and LEOFF Plan 1's assets, liabilities and membership into one retirement system —thus forming, as declared in section 202, the merged LEOFF 1/TRS 1 retirement plan.

Section 203(a)(ii) and 203(b)(ii) states that the membership and benefits of TRS 1 and LEOFF 1 will be administered as their own individual tiers within the merged LEOFF 1/TRS 1 retirement plan, and members of each respective tier will not be eligible for benefits in the other.

In addition, section 507(6) changes the minimum contribution rates intended to amortize the unfunded liability in

TRS 1 from 3.50% to 0.44%, effective September 1, 2021. Section 507(4) and (5) make the same reduction to the minimum contribution rate to amortize the unfunded liability in Plan 1 of the Public Employees' Retirement System (PERS 1).

It is critical to note that this merger is contingent upon the Department of Retirement Systems (DRS) receiving a favorable private letter from the Internal Revenue Service (IRS), as stated in section 301(2). Furthermore, section 801 declares that if the IRS identifies that this merger is in conflict with plan qualification requirements, the merged LEOFF 1/TRS 1 retirement plan and the new annuity window, as well as the lump sum defined benefit for LEOFF Plan 1 retirees are null and void.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

ADMINISTRATIVE ASSUMPTIONS

LEOFF Benefit Enhancements:

- The new LEOFF 2 member multiplier (2.5% of member's Final Average Salary for years of service above 15 and up to 26) applies to term-vested and inactive LEOFF 2 members, as well as survivors for LEOFF 2 members who die in the line of duty.
- Return to Membership re-retirements will use the multiplier rules in place at the time of the original retirement since they were not active at the time the provisions of this bill were implemented.
- For any LEOFF 1 or LEOFF 2 retirees (service or disability) who die with no survivor option between the effective date and the payment date of the $20,000 lump sum benefit, the payment will go to the payee's named beneficiary(ies).
- For any LEOFF 1 or LEOFF 2 retiree survivors receiving a lifetime benefit who die between the effective date and the payment date of the $20,000 lump sum benefit, the payment will be made to their estate.
- The LEOFF 2 service credit year requirement for the $20,000 lump sum benefit includes any current LEOFF 2 service credit transferred from any previous systems, such as PERS and PSERS (the Public Safety Employees' Retirement System).

LEOFF 1/TRS 1 Merger:

- If the determination letter from the IRS rules unfavorable for the new LEOFF 1/TRS 1 retirement system, the $20,000 lump sum benefit for LEOFF 1 retirees (payable on January 3, 2022 or their retirement date, whichever is later) must be returned through a lump sum repayment.

BENEFITS/CUSTOMER SERVICE

Retirement Specialists (RSs) will support the modifications of DRS' automated systems by participating in user acceptance testing activities and on the implementation project team. Team members will assist in updates to member communications as well as internal reference manuals and training materials. RSs will respond to a short-term increase in the number of member inquiries regarding the changes due to this legislation.

LEOFF Benefit Enhancements:
Retirement Specialist 3 – 241 hours (salaries/benefits) $9,906

L1/T1 Merger:
Retirement Specialist 3 – 221 hours (salaries/benefits) $9,084

Total Estimated Benefits/Customer Service Costs $18,990

FISCAL SERVICES

Fiscal team members will need to update processes, reconciliations and financial reporting related to the transfer from the LEOFF Benefits Improvement Account to the LEOFF 2 retirement fund, as well as update documents/processes for the lump sum payments for LEOFF members. In regards to the L1/T1 Merger, fiscal team members must establish a new tax ID for the new retirement system, begin annual reporting/reconciling and tax reports for the new system, and set up new reports with the State Treasurer to make daily tax deposits and end-of-the-year reconciliation.

LEOFF Benefit Enhancements:
Management Analyst 5 – 20 hours (salaries/benefits) $1,140
Fiscal Analyst 5 – 64 hours (salaries/benefits) $3,268

L1/T1 Merger:
Management Analyst 5 – 40 hours (salaries/benefits) $2,280
Fiscal Analyst 5 – 104 hours (salaries/benefits) $5,311

Total Estimated Fiscal Services Costs $11,999

EMPLOYER SUPPORT SERVICES

Employer Support Services (ESS) team members will assist with systems testing.

LEOFF Benefit Enhancements:
Management Analyst 3 – 10 hours (salaries/benefits) $458

MEMBER COMMUNICATIONS

DRS' Communications Team will need to develop materials to communicate changes for both the L1/T1 Merger, as well as the LEOFF benefit enhancements. For the L1/T1 Merger, an internal summary of Frequently Asked Questions (FAQs) will be created, reviewed and edited, as well as an informational letter to L1 and T1 members. For the LEOFF benefit enhancements, updates to the handbooks will take place, as well as the creation of web and Outlook articles, an employer notice, and an internal FAQ. The estimated cost of postage, envelopes, letterhead and mailings are included in the estimates below.

LEOFF Benefit Enhancements:
Comm. Consultant 5 – 80 hours (salaries/benefits) $4,364
Cost of Mailing $6,777

L1/T1 Merger:
  Comm. Consultant 5 – 40 hours (salaries/benefits) $2,182
  Cost of Mailing $29,505

Total Estimated Member Communications Costs $42,828

AUTOMATED SYSTEMS

Modifications will be made to DRS' systems to create new reports and tables necessary for the LEOFF benefit enhancements and the L1/T1 Merger. Requirements gathering, system and integration testing, the creation of test scripts, assistance with User Acceptance Testing (UAT) and production implementation will also take place.

LEOFF Benefit Enhancements:
  Programmer (Contractor) hours – 104 hours @ $105 per hour $10,920
  IT Business Analyst – Journey – 118 hours (salaries/benefits) $7,290
  Azure Server Costs – 6 weeks @ $100 per week $600

L1/T1 Merger:
  Programmer (Contractor) hours – 540 hours @ $105 per hour $56,700
  IT Business Analyst – Journey – 546 hours (salaries/benefits) $33,732
  Azure Server Costs – 28 weeks @ $100 per week $2,800

Total Estimated Automated Systems Costs $112,042

PROJECT MANAGEMENT

The agency's Project Management Office (PMO) will lead the team that implements this change. PMO will assign a part-time project manager to provide project oversight and leadership throughout the initiation, planning, execution, implementation, closeout and measure-value phases of the project.

LEOFF Benefit Enhancements:
  Project Manager for LEOFF Benefit Enhancements – 150 hours (salaries/benefits) $11,594

L1/T1 Merger:
  Project Manager – 300 hours (salaries/benefits) $23,187
  IT Business Analyst – Journey – 200 hours (salaries/benefits) $12,356

Total Project Management Costs $48,290

LEGAL SERVICES

DRS will request a determination letter from the Internal Revenue Service (IRS) for the plan qualification status for a merger of LEOFF 1 and TRS 1. Special tax counsel familiar with IRS plan qualification issues would be contracted through the state's Attorney General's Office for this effort. This process of obtaining a determination is estimated to take approximately six months.

L1/T1 Merger:
One-time Cost for Tax Counsel $50,000

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL: $283,454

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2022	FY 2023	2021-23	2023-25	2025-27
600-1	Department of Retirement Systems Expense Account	State	283,454	0	283,454	0	0
		Total $	283,454	0	283,454	0	0

III. B - Expenditures by Object Or Purpose

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	1.0		0.5		
A-Salaries and Wages	94,318		94,318		
B-Employee Benefits	31,834		31,834		
C-Professional Service Contracts	117,620		117,620		
E-Goods and Other Services	39,682		39,682		
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total $	283,454	0	283,454	0	0

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2022	FY 2023	2021-23	2023-25	2025-27
Communications Consultant 5	84,396	0.1		0.0		
Fiscal Analyst 5	78,408	0.1		0.0		
IT Business Systems Analyst - Journey	96,888	0.4		0.2		
IT Project Manager	123,636	0.2		0.1		
Management Analyst 3	69,264					
Management Analyst 5	88,644	0.0		0.0		
Retirement Specialist 3	61,224	0.2		0.1		
Total FTEs		1.0		0.5		0.0

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part IVB*

NONE

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Rule-making will be necessary to move current LEOFF 1 and TRS 1 WACs under a new chapter dedicated to the new/merged retirement system.

Individual State Agency Fiscal Note

Bill Number: 5453 SB	Title: Retirement plans 1 & 2	Agency: 126-State Investment Board

Part I: Estimates

☒ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Amanda Cecil	Phone: 360-786-7460	Date: 02/18/2021
Agency Preparation:	Celina Verme	Phone: (360) 956-4740	Date: 02/22/2021
Agency Approval:	Celina Verme	Phone: (360) 956-4740	Date: 02/22/2021
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 02/22/2021

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Section 201 – Merges the assets, liabilities, and membership of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System Plan 1 into the Teachers' Retirement System (TRS) Plan 1. This retirement system shall be known as the merged LEOFF 1/TRS 1 retirement plan, and by this name all of its business shall be transacted and all of its funds invested and all of its cash, securities, and other property held.

Section 241 – Provides the State Investment Board (SIB) with the full power to invest, reinvest, manage, contract, sell, or exchange investment money in the merged LEOFF 1/TRS 1 retirement plan fund.

Section 242 – Provides a $20,000 lump sum payment to LEOFF retirees and survivors on January 3, 2022.

The bill takes effect immediately.

The SIB expects no operational or investment impacts resulting from this bill.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part IVB*

NONE

Part V: New Rule Making Required

Individual State Agency Fiscal Note

Bill Number: 5453 SB	Title: Retirement plans 1 & 2	Agency: 225-Washington State Patrol

Part I: Estimates

[X] **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

[ ] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

[ ] If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

Legislative Contact:	Amanda Cecil	Phone: 360-786-7460	Date: 02/18/2021
Agency Preparation:	Shawn Eckhart	Phone: 360-596-4083	Date: 02/19/2021
Agency Approval:	Walter Hamilton	Phone: 360-596-4046	Date: 02/19/2021
OFM Review:	Jenna Forty	Phone: (564) 999-1671	Date: 02/19/2021

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This proposed legislation states in Section 101 that it will not increase the short-term cost for members, employers, or the state. Therefore we assume there will be no fiscal impact to the Washington State Patrol (WSP) through at least the 2023-25 biennium.

Section 102 of this legislation transfers the sum of the total available balance of the Local Law Enforcement Officers' and Firefighters' Retirement System Benefits Improvement Account to the Law Enforcement Officers' and Firefighters' plan 2 (LEOFF 2) retirement fund.

Section 103 increases the benefits of members of LEOFF 2. Currently members receive 2% of their final average salary for each year of service at retirement. Effective January 1, 2022, the benefit calculation would be 2.5% for each year of service between 15 and 26 years, and 2% for the first 15 years, and for service years above 26.

Section 104 provides for a $20,000 lump sum payment per eligible member or survivor, payable on January 3, 2022.

Section 105 caps the contribution rates for LEOFF 2 at the rates adopted by the LEOFF 2 retirement board on July 22, 2020, for the 2021-23 and 2023-25 biennia.

The remainder of the legislation proposes to combine the Teachers Retirement System plan 1 with the Law Enforcement Officers' and Firefighters' retirement system plan 1. The combined retirement system would be called the LEOFF 1/TRS 1 retirement plan. Members and their benefits from each former plan would be administered in separate tiers in the new plan. The members of the former two plans shall have benefits equal to what they had received under the former plans, with the merger causing no changes.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

None.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Section 105 caps the contribution rates for LEOFF 2 at the rates adopted by the LEOFF 2 retirement board on July 22, 2020, for the 2021-23 and 2023-25 biennia. It is unknown what impact this will have on employer contribution rates beyond that. We assume that the impact will be captured in the fiscal note from the Department of Retirement Systems and that any changes of funding for the WSP would derive from that fiscal note.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Non-zero but indeterminate cost and/or savings. Please see discussion.

III. B - Expenditures by Object Or Purpose

Non-zero but indeterminate cost and/or savings. Please see discussion.

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part IVB*

NONE

None.

Part V: New Rule Making Required

Individual State Agency Fiscal Note

Bill Number: 5453 SB	Title: Retirement plans 1 & 2	Agency: 227-Criminal Justice Training Commission

Part I: Estimates

[X] **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:
NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

[ ] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

[ ] If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

Legislative Contact:	Amanda Cecil	Phone: 360-786-7460	Date: 02/18/2021
Agency Preparation:	Brian Elliott	Phone: 206-835-7337	Date: 02/19/2021
Agency Approval:	Brian Elliott	Phone: 206-835-7337	Date: 02/19/2021
OFM Review:	Cynthia Hollimon	Phone: (360) 810-1979	Date: 02/19/2021

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This bill has no fiscal impact on the Criminal Justice Training Commission.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

This bill has no cash receipt impact on the Criminal Justice Training Commission.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

This bill has no expenditure impact on the Criminal Justice Training Commission.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part IVB*

NONE

This bill has no capital budget impact on the Criminal Justice Training Commission.

Part V: New Rule Making Required

Individual State Agency Fiscal Note

Bill Number: 5453 SB	Title: Retirement plans 1 & 2	Agency: 341-Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board

Part I: Estimates

☒ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Amanda Cecil	Phone: 360-786-7460	Date: 02/18/2021
Agency Preparation:	Seth Flory	Phone: (360) 407-8165	Date: 02/19/2021
Agency Approval:	Seth Flory	Phone: (360) 407-8165	Date: 02/19/2021
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 02/19/2021

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Senate Bill 5453 proposes a variety of new and expanded retirement benefits for law enforcement officers and fire fighters.

The Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board (LEOFF) is already equipped and prepared to communicate any changes in retirements benefits to constituents. Therefore, LEOFF does not foresee any new expenditures resulting from this legislation and the changes proposed there-in.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part IVB*

NONE

Part V: New Rule Making Required

Individual State Agency Fiscal Note

Bill Number: 5453 SB	Title: Retirement plans 1 & 2	Agency: AFN-Actuarial Fiscal Note - State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2022	FY 2023	2021-23	2023-25	2025-27
Account					
General Fund-State 001-1	(391,400,000)	(408,800,000)	(800,200,000)	(939,900,000)	(488,300,000)
Total $	(391,400,000)	(408,800,000)	(800,200,000)	(939,900,000)	(488,300,000)

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:	Amanda Cecil	Phone: 360-786-7460	Date: 02/18/2021
Agency Preparation:	Aaron Gutierrez	Phone: 360-786-6152	Date: 03/16/2021
Agency Approval:	Lisa Won	Phone: 360-786-6150	Date: 03/16/2021
OFM Review:	Jane Sakson	Phone: 360-902-0549	Date: 03/17/2021

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2022	FY 2023	2021-23	2023-25	2025-27
001-1	General Fund	State	(391,400,000)	(408,800,000)	(800,200,000)	(939,900,000)	(488,300,000)
		Total $	(391,400,000)	(408,800,000)	(800,200,000)	(939,900,000)	(488,300,000)

III. B - Expenditures by Object Or Purpose

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits	(391,400,000)	(408,800,000)	(800,200,000)	(939,900,000)	(488,300,000)
C-Professional Service Contracts					
E-Goods and Other Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total $	(391,400,000)	(408,800,000)	(800,200,000)	(939,900,000)	(488,300,000)

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part IVB*

NONE

Part V: New Rule Making Required

SUMMARY OF RESULTS

BRIEF SUMMARY OF BILL: This bill merges the assets and liabilities of the TRS 1 and LEOFF 1 retirement systems, establishes a new minimum contribution rate for the merged plan, enacts benefit improvements for LEOFF 1 and LEOFF 2, and freezes LEOFF 2 contribution rates for two biennia.

COST SUMMARY

Impact on Contribution Rates* (Effective 9/1/2021)		
FYs 2021-23 State Budget	TRS	LEOFF 2
Employee	0.00%	0.00%
Employer	(5.75%)	0.00%
State		0.00%

**Under current law, LEOFF 1 contribution rates are expected to remain at 0.00%. Under this bill, no UAAL contributions to the merged plan are required from LEOFF employers.*

Budget Impacts			
(Dollars in Millions)	2021-23	2023-25	25-Year
General Fund-State	($800)	($940)	($2,019)
Local Government	($120)	($141)	$0
Total Employer	**($920)**	**($1,081)**	**($2,019)**

Note: We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

- Under current law, LEOFF 1 has an expected surplus of $1.7 billion as of June 30, 2019. We expect this to continue to grow in the future.
- This bill applies the expected LEOFF 1 surplus to lower the future contribution requirements for the merged plan resulting in a savings to the retirement systems. This bill also results in a cost because it increases benefits for certain LEOFF members. The result is a net 25-year savings.

LEOFF 1 and TRS 1 Merger

- Under current law, we project the Funded Status at the end of FY21 will be 75 percent for TRS 1 and 152 percent for LEOFF 1. Under this bill, we estimate the corresponding Funded Status of the merged plan is 99.5 percent.
- This component of the bill is expected to result in a 25-year total employer budget savings of just under $2.6 billion.
- Certain plan funding risks increase for the merged plan under this bill when compared to TRS 1 under current law. For instance, under less favorable economic scenarios, we expect the likelihood of a funded status below 90 percent to increase. Our risk analysis suggests this outcome is mainly due to the lower UAAL contribution rate floor (0.44 percent vs. 5.75 percent) under these circumstances.

LEOFF 2 Benefit Improvement

- This bill increases liabilities by $899 million, assets by $235 million, contribution rates starting in FY26, and the 25-year total employer budget by $557 million.
- We assume members will retire earlier than under current law once they reach 25 YOS. If retirement behavior doesn't change, the 25-year total employer budget impact would decrease to $478 million. If members retire earlier than we assume, those costs will be higher than $557 million.
- Increased plan costs also increase plan risks. We estimate the chance that total employer contribution rates exceed 10 percent of pay will increase from 23 percent to 33 percent in the year 2030.

See the remainder of this fiscal note for additional details on the summary and highlights presented here.

WHAT IS THE PROPOSED CHANGE?

Summary of Bill

This bill impacts the following systems:

- ❖ Teachers' Retirement System (TRS).
- ❖ Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2.

This bill merges the assets and liabilities of the TRS 1 and LEOFF 1 retirement systems, establishes a new minimum contribution rate for the merged plan, enacts benefit improvements for LEOFF 1 and LEOFF 2, and caps the contribution rates for LEOFF 2 for two biennia.

This section of the actuarial fiscal note only addresses the changes that impact the costs to the retirement plans. Please see the bill for a full list of changes.

Effective Date: Multiple effective dates. Most of the bill is effective immediately upon passage, but individual provisions have different effective dates. See the description above, and sections 801-807 of Senate Bill 5453 for more details.

Merger

This bill creates a new retirement system with two benefit tiers. The assets and liabilities of LEOFF 1 and TRS 1 are merged and moved into the new system. LEOFF 1 and TRS 1 will be administered as separate benefit tiers within the new system. The bill also makes other statutory changes to meet this goal.

The Department of Retirement Systems (DRS) is required to administer the new system in a way that ensures no impact to member benefits. DRS must also request a determination letter from the Internal Revenue Service. The merger is null and void if a determination letter indicates the merger is in conflict with Internal Revenue Code, and the conflict cannot be remedied. The results of a determination letter do not impact the changes to Unfunded Actuarial Accrued Liability (UAAL) rates.

LEOFF 1 Benefit Improvement

On January 3, 2022, eligible members and survivors in LEOFF 1 will receive a one-time check of $20,000. See section 242 of the bill for more details.

Transfer from the LEOFF 2 Benefit Improvement Account

On July 1, 2021, the total available balance in the LEOFF 2 Benefit Improvement Account (L2-BIA) is transferred to the LEOFF 2 retirement fund to fund the benefit improvements detailed in the next two sections.

LEOFF 2 Benefit Multiplier

Beginning January 1, 2022, the benefit multiplier for service above 15 and up to 26 years is increased as follows:

Years 0-15:	2.0%
Years 16-25:	2.5%
Years 26 onward:	2.0%

The current bill language isn't clear on partial service credit and exactly when each level applies. Specifically, it isn't clear how years 15 and 25 will be administered (i.e., does the multiplier drop back to 2.0 percent at 25 years and one month, or at 26 years and zero months?). Depending on how this is administered, a member could receive as many as 11 Years Of Service (YOS) at the 2.5 percent multiplier.

However, in discussions with legislative staff, it is our understanding the intent is to provide the 2.5 percent multiplier for a maximum of 10 YOS earned between 15 and 25 years. The analysis in this fiscal note assumes the member will receive a maximum of 10 YOS at the higher multiplier. We will update our analysis accordingly if we receive additional clarification on the intent or bill language.

LEOFF 2 Lump Sum

On January 3, 2022, eligible members and survivors in LEOFF 2 will receive a one-time check of $20,000. See section 104 of the bill for more details.

LEOFF 2 Rate Freeze

Section 105 caps the contribution rates at the levels enacted by the LEOFF 2 Board (the Board) at their July 22, 2020, meeting for the 2021-23 and 2023-25 Biennia.

What Is the Current Situation?

Both TRS 1 and LEOFF 1 were closed to new members in 1977. The following summary describes only the aspects of current plan provisions necessary to illustrate the impact of the changes described above. Please see the *DRS Handbook* for a full list of plan provisions.

TRS 1

There are two types of contributions to TRS 1: (1) Contributions for the ongoing costs of the plan; and (2) Contributions for past costs (the UAAL).

1. Plan 1 members (and their employers) make contributions toward the ongoing cost of the plan. Contribution rates for Plan 1 members are set in statute at 6 percent. Employer contributions are set by the Pension Funding Council (PFC), subject to revision by the Legislature.
2. A separate (UAAL) rate is charged to all TRS employers in addition to the ongoing contribution rate. The UAAL rate is calculated on a rolling

ten-year amortization, as a level percentage of projected system payroll. Beginning September 1, 2015, a minimum 5.75 percent UAAL rate was established, and remains in effect until the actuarial value of assets in TRS 1 equals 100 percent of the actuarial accrued liability.

LEOFF 1

The Legislature has stated its intent to fully amortize the costs of LEOFF 1 by June 30, 2024, and the PFC is directed to adopt biennial "basic rates" for LEOFF 1 that are sufficient to achieve this goal.

Currently, the Revised Code of Washington (RCW) 41.26.080 provides that no member or employer contribution is required for LEOFF 1 unless the most recent actuarial valuation report shows the plan has unfunded liabilities. As of June 30, 2019, the measurement date for the latest actuarial valuation, LEOFF 1 has a surplus of $1.7 billion and a funded status of 141 percent on an actuarial value basis (i.e., using the actuarial value of assets and the current statutory discount rate of 7.5 percent per year to determine the present value of earned pension obligations).

The current LEOFF 1 funding method has a fixed amortization date of 2024. Beyond that year, statute is not clear on how contributions will be collected if LEOFF 1 falls out of a fully funded status.

LEOFF 2

The L2-BIA is a separate account from the retirement fund; meaning the funds in the account are not considered when conducting a valuation of the LEOFF 2 retirement plan. Prior to 2019 there was a mechanism in law for transferring money into that account. See section 102 of the bill, or RCW 41.26.802 for more information.

As the name suggests, funds in that account were to be used for improving benefits for LEOFF 2 members.

At retirement, a LEOFF 2 member receives a benefit calculated as follows:

Service Credit × Benefit Multiplier × Final Average Salary

That benefit multiplier has been 2 percent since the system was created.

In even-numbered years, the Board is required to adopt contribution rates for the plan. On July 22, 2020, the Board adopted contribution rates for the 2021-23 and 2023-25 Biennia. See section 105 of the bill, RCW 41.45.0604, or the LEOFF 2 website for more information on this process.

Who Is Impacted and How?

LEOFF 1 and TRS 1 Merger

The bill does not change benefits for any members of LEOFF 1 or TRS 1, except for the $20,000 lump sum benefit for eligible LEOFF 1 members and survivors.

Additionally, this bill does not impact any TRS 1 members through a change in contribution rates because TRS 1 member contribution rates are set in statute at 6 percent of salary. The bill also stipulates that LEOFF 1 members and employers will not contribute to the merged plan, eliminating the possibility of future LEOFF 1 member or employer contributions. TRS employers are expected to pay lower UAAL contribution rates and over a shorter period of time.

LEOFF 2 Benefit Improvement

We estimate this bill could affect 18,557 active members of LEOFF 2 through improved benefits. In addition, we estimate 5,218 annuitants will also receive an improved benefit (via the $20,000 lump sum payment) out of the total 6,064 annuitants in the plan.

Under current law and current assumptions, the average LEOFF 2 active member (who reaches retirement eligibility) is expected to retire at approximately age 58 with 29 YOS. The benefit multiplier at retirement for the average member changes as follows.

> Current Law: 29 YOS × 2% Multiplier = 58%
> This Bill: 19 YOS × 2% Multiplier + 10 YOS × 2.5% Multiplier = 63%

This means the average member's benefit will increase by about 9 percent because of the additional 0.5 percent multiplier for each year of service between 15 and 25 years. The actual increase for each member will vary depending on how many YOS they work. Additionally, retirees and survivors having earned at least 15 YOS and survivors of members experiencing a duty-related death will receive a $20,000 lump sum benefit.

The LEOFF 2 benefit improvement does not increase LEOFF 2 contribution rates in the 2021-23 or 2023-25 Biennia because the bill caps the rates at the levels adopted by the Board at their July 2020 meeting. However, we anticipate this bill will increase contribution rates starting in the 2025-27 Biennium and beyond. The increased contribution rates are paid by members and employers of LEOFF 2 and the state based on the current funding policy in statute.

WHY THIS BILL HAS COSTS/SAVINGS AND WHO IS IMPACTED

Why This Bill Has Costs and Savings

This bill results in a 25-year savings to the state and TRS employers because it applies an expected LEOFF 1 surplus to lower the future contribution requirements for the merged plan. This bill also results in a short-term cost because it increases benefits for LEOFF 1 members.

This bill also has a cost to LEOFF 2 because it provides larger benefits to members than under current law. The cost of the improved benefits is partially offset by transferring the L2-BIA balance into the LEOFF 2 trust.

Who Will Receive These Savings and Pay for the Costs?

Based on the funding policy for the merged plan, the expected savings will be realized by all TRS employers and state budgets through decreases in the Plan 1 UAAL contribution rates. TRS 1 member rates are set in statute and do not change under this bill. LEOFF 1 members and their employers will not make contributions to the merged plan under this bill.

LEOFF 2 contribution rates will increase to fund the additional benefits provided in this bill. The contribution rate increase is divided according to the standard funding method for LEOFF Plan 2: 50 percent member, 30 percent employer, and 20 percent state. Based on the current funding policy adopted by the LEOFF 2 Board, rates won't increase until the 2025-27 Biennium because the bill caps the rates at the currently adopted levels for the 2021-23 and 2023-25 Biennia.

HOW WE VALUED THESE COSTS

Assumptions We Made

We recognize this bill has multiple effective dates. For the sake of simplicity when determining the savings and costs from this bill, we assumed an effective date of June 30, 2021. Unless otherwise noted below, we developed these costs using the same assumptions as disclosed in the *June 30, 2019, Actuarial Valuation Report* (AVR) and the Projection Disclosures available on our website, which includes our assumption for pension funding sources.

LEOFF 1 and TRS 1 Merger

For the LEOFF 1 and TRS 1 merger analysis, we used our projections model to estimate future contribution rates under current law and this bill. Under this bill, we assumed the new minimum UAAL contribution rate of 0.44 percent replaces the current TRS 1 minimum UAAL contribution rate of 5.75 percent and remains in effect until the merged plan UAAL is paid off. We also assume that only TRS employers would make any UAAL contributions to the merged plan.

We used our valuation software and current retirement/mortality assumptions to estimate that 6,700 actives, retirees, and survivors in LEOFF 1 will be eligible for the $20,000 lump sum payment as of June 30, 2021. Given the payment is made in January of 2022, we discounted the total amount back to the measurement date of June 30, 2021, using the 7.5 percent statutory investment rate of return. (Actives won't receive their lump sum payment until they retire, but there are so few remaining that the timing is not material to the overall fiscal impacts.) If the actual number of eligible members is more or less than expected, the cost of this provision of the bill will correspondingly be higher or lower.

LEOFF 2 Benefit Improvement

We assumed active LEOFF 2 members will change their retirement behavior because of the larger benefits earned under this bill. More specifically, we assume member behavior will change after earning 25 YOS. Please see **Appendix B** for more information.

We also assumed active members may earn a maximum of 10 years at the 2.5 percent benefit multiplier for service earned between 15 and 25 years.

We relied on the annuitant population as of our latest June 30, 2019, actuarial valuation to estimate the number of members eligible for the $20,000 lump sum benefit. We used the same measurement date to estimate the impacts to active members eligible for the increase to the benefit multiplier. We considered adjusting both populations for mortality, new hires, and additional retirements; however, we expect the net impact of these modifications are not material to the pricing results and thus chose not to make the adjustments. If the actual number of eligible members is more or less than expected, the cost of these provisions of the bill will correspondingly be higher or lower.

We used our projections model to estimate future contribution rates under current law and this bill by assuming rates are adopted according to the Board's current funding policies. We used these projected contribution rates to determine the budget impacts for LEOFF 2. Please see **Appendix B** for more information on LEOFF 2 funding policies.

How We Applied These Assumptions

Unless otherwise noted below, we developed these costs using the same methods as disclosed in the AVR.

LEOFF 1 and TRS 1 Merger

Using our projection system, we calculated expected liabilities, assets, and benefit payments in LEOFF 1 and TRS 1 using current assumptions and methods to establish the expected contribution requirements before the merger. Next, we combined projected assets and liabilities for LEOFF 1 and TRS 1, including the one-time lump sum payment to LEOFF 1 members. This merged plan is expected to be nearly fully funded as of June 30, 2021.

We then applied the funding policy specified in the bill to the merged plan. Since the plan is approaching full funding (i.e., the point when UAAL contributions turn off), we calculated the 2021-23 Biennium contribution rates as of June 30, 2021. The contribution rate required to amortize the remaining UAAL over a rolling 10-year period is below the minimum contribution rate established under the bill, so the minimum rate applies until the plan attains a 100 percent funded status.

When incorporated into our projection system, this allowed us to establish the expected contribution requirements after the merger. We then compared the contributions before and after the merger to determine the expected savings under this bill.

This approach of calculating the contribution rates as of June 30, 2021, helps account for any expected changes in the projected plan measures between the most recent actuarial valuation date, June 30, 2019, and the effective date of the bill. For further details on the calculation of the merged plan UAAL contribution rates, please see **Appendix A**.

We modeled the lump sum payment to eligible LEOFF 1 members as a reduction to assets, discounted from the payment date defined in the bill to June 30, 2021, in our projection system. This provision, by itself, lowers the assets and increases future UAAL contribution rates under the merger.

LEOFF 2 Benefit Improvement

To determine the impacts to LEOFF 2, we updated our model with the provisions and assumptions related to this bill as follows:

- We increased the active member benefit multiplier from 2.0 to 2.5 percent for service earned between 15 and 25 years;
- We updated the retirement rates assumption for members earning at least 25 YOS; and
- We adjusted the plan's assets measured at June 30, 2019, to model the impact of the L2-BIA transfer and annuitant lump sum payout. This resulted in an overall increase in plan assets as the L2-BIA is larger than the annuitant lump sum. Please see the **How the Assets Changed** section for more information.

To estimate the fiscal impact of this bill, we compared projected pension contributions under current law to the projected contributions we expect under this bill. The projected pension contributions reflect contributions from the current members as well as expected future hires.

Special Data Needed

Unless otherwise noted, we developed this analysis using the same assets and data as disclosed in the AVR.

ACTUARIAL RESULTS

How the Liabilities Changed

The bill does not change benefits for LEOFF 1 or TRS 1, except for the one-time $20,000 lump sum payment for LEOFF 1 members. We modeled the one-time payment as an asset outflow rather than an increase to liabilities. So, this bill is not expected to impact the present value of future benefits payable under those plans.

Comparatively, this bill will impact the actuarial funding of LEOFF 2 by increasing the present value of future benefits payable to the members as shown in the following table.

Impact on Pension Liability*			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits *(The Value of the Total Commitment to All Current Members)*			
LEOFF 1	$3,909	($3,909)	$0
TRS 1	7,808	(7,808)	0
LEOFF 1/TRS 1 Merged	**N/A**	**$11,717**	**$11,717**
LEOFF 2	**$16,096**	**$899**	**$16,995**
Unfunded Entry Age Accrued Liability *(The Value of the Total Commitment to All Current Members Attributable to Past Service that is Not Covered by Current Assets)*			
LEOFF 1	($2,034)	$2,034	$0
TRS 1	1,962	(1,962)	0
LEOFF 1/TRS 1 Merged**	**N/A**	**$57**	**$57**
LEOFF 2**	**($1,302)**	**$390**	**($911)**

Note: Totals may not agree due to rounding.
**Plans 1 and Merged plan liability measured as of June 30, 2021; LEOFF 2 measured at June 30, 2019.*
***Increase includes reduction in assets for $20,000 payment to eligible annuitants.*

How the Assets Changed

This bill will impact the actuarial funding for the merged plan by decreasing asset values to fund the one-time payment to eligible annuitants. The total expected distribution is $134 million, payable in January of 2022. For our measurement purpose we discount this amount back six months to June 30, 2021. The merged plan assets shown in the table below include this discounted asset decrease of $129 million.

This bill will impact the actuarial funding of LEOFF 2 by increasing assets available to pay benefits. The increase in assets is the net result of the L2-BIA transfer and the annuitant lump sum payout. When measured at June 30, 2019, the L2-BIA assets of $322 million are offset by the annuitant payout of $87 million, leading to the combined figure in the following table. Please see **Appendix B** for more information.

Actuarial Value of Assets*			
(Dollars in Millions)	**Current**	**Increase**	**Total**
LEOFF 1	$5,942	($5,942)	$0
TRS 1	5,842	(5,842)	0
LEOFF 1/TRS 1 Merged**	**N/A**	**$11,655**	**$11,655**
LEOFF 2**	**$13,294**	**$235**	**$13,529**

Note: Totals may not agree due to rounding.
**Plans 1 and Merged plan assets measured as of June 30, 2021; LEOFF 2 measured at June 30, 2019.*
***Increase includes reduction in assets for $20,000 payment to eligible annuitants.*

How the Present Value of Future Salaries (PVFS) Changed

This bill will impact the actuarial funding of the affected plans by changing the PVFS as shown in the table below.

Under current law, we assume any LEOFF 1 UAAL that may emerge will be funded by the state as a contribution rate collected over all LEOFF salaries (Plans 1 and 2). Under the bill, we assume any current or future UAAL contributions to the merged plan will be collected over TRS salaries only (Plans 1, 2, and 3). In other words, the merged plan creates a larger liability base when LEOFF 1 is combined with TRS 1, but still has the same TRS payroll to support any unfunded obligations that emerge.

Comparatively, the decrease in PVFS for current LEOFF 2 members is a result of earlier retirements expected under this bill. A shorter career leads to less overall salary to fund pension obligations.

Present Value of Future Salaries*			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Future Salaries			
(The Value of the Future Salaries Used in the Funding Method)			
LEOFF 1	$2,220	($2,220)	$0
TRS 1	67,020	(67,020)	0
LEOFF 1/TRS 1 Merged**	**N/A**	**$67,020**	**$67,020**
LEOFF 2	**$24,130**	**($321)**	**$23,809**

Note: Totals may not agree due to rounding.
**Plans 1 and Merged plan PVFS measured as of June 30, 2021; LEOFF 2 measured at June 30, 2019.*
***LEOFF 1/TRS 1 Merged plan contribution rates collected over TRS salaries only.*

How Contribution Rates Changed

LEOFF 1 and TRS 1 Merger

The following table shows the expected contribution rate differences by year. Please see **Appendix A** for further details.

LEOFF 1/TRS 1 UAAL Contribution Rates *(If All Assumptions Are Realized)*				
Fiscal Year	LEOFF 1 Current Law	TRS 1 Current Law	LEOFF 1/TRS 1 Merged* After Merger	Difference
2022	0.00%	6.19%	0.44%	(5.75%)
2023	0.00%	6.19%	0.44%	(5.75%)
2024	0.00%	6.19%	0.00%	(6.19%)
2025	0.00%	6.19%	0.00%	(6.19%)
2026	0.00%	6.19%	0.00%	(6.19%)
2027	0.00%	0.00%	0.00%	0.00%

**Collected over TRS salaries only.*

LEOFF 2 Benefit Improvement

The table below shows the contribution rates measured at June 30, 2019. The Board has adopted rates for the 2021-23 and 2023-25 Biennia. We expect rate adoptions starting in the 2025-27 Biennium (and beyond) will be the 90 percent minimum contribution rate based on our projection of plan funded status and Board funding policy. Please see **Appendix B** for more information on projected contribution rates for future biennia. Those projected rates do not match the table below due to assumed changes in plan demographics.

LEOFF 2 Contribution Rate Impact			
	Current Law	Bill	Difference
Aggregate Cost Method			
Employee	5.81%	7.28%	1.47%
Employer	3.49%	4.37%	0.88%
State	2.32%	2.91%	0.59%
Minimum Rate*			
Employee	7.68%	8.29%	0.61%
Employer	4.61%	4.97%	0.36%
State	3.07%	3.32%	0.25%

**Minimum rates calculated from 90 percent of Normal Cost of Entry Age Normal Cost Method.*

How This Impacts Budgets and Employees

The budget impacts in the following table are calculated as the difference in projected contributions under current law and this bill. Contributions are determined by multiplying contribution rates by projected salaries for current members and assumed future hires. We relied on our projections model to estimate future contribution rates and salaries. Please see **Appendix A** and **Appendix B** for more information on the merged plan and the LEOFF 2 projections, respectively.

Budget Impacts			
(Dollars in Millions)	TRS	LEOFF 2	Total
2021-2023			
General Fund	($799.9)	($0.3)	($800.2)
Non-General Fund	0.0	0.0	0.0
Total State	**($799.9)**	**($0.3)**	**($800.2)**
Local Government	(119.5)	(0.5)	(120.0)
Total Employer	**($919.5)**	**($0.8)**	**($920.2)**
Total Employee	**$0.0**	**($0.8)**	**($0.8)**
2023-2025			
General Fund	($939.5)	($0.5)	($939.9)
Non-General Fund	0.0	0.0	0.0
Total State	**($939.5)**	**($0.5)**	**($939.9)**
Local Government	(140.4)	(0.7)	(141.1)
Total Employer	**($1,079.8)**	**($1.2)**	**($1,081.0)**
Total Employee	**$0.0**	**($1.2)**	**($1.2)**
2021-2046			
General Fund	($2,241.0)	$222.2	($2,018.8)
Non-General Fund	0.0	0.0	0.0
Total State	**($2,241.0)**	**$222.2**	**($2,018.8)**
Local Government	(334.9)	334.8	(0.1)
Total Employer	**($2,575.8)**	**$556.9**	**($2,018.9)**
Total Employee	**$0.0**	**$556.9**	**$556.9**

Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

We observe a LEOFF 2 savings in the 2021-23 and 2023-25 Biennia because we assume members will retire at a higher rate under this bill than under current law. More retirements lead to a decrease in expected total salary when longer service members leave the system and are replaced with future hires at a lower salary. Savings arise when we apply the currently adopted rates to the lower salary amounts.

Please see the **How the Results Change When the Assumptions Change** section of this fiscal note for further details on how the projected budget impacts change under different assumptions.

The analysis of this bill does not consider any other proposed changes to the systems. The combined effect of several changes to the systems could exceed the sum of each proposed change considered individually.

Comments on Risk

Actuaries have several methods to test and disclose the risk of future experience unfolding differently than expected. We perform these tests to help our users understand how the systems react under adverse experience. We discuss types of risk and methods to measure the risk on our Commentary on Risk webpage. One method for assessing risk, sensitivity testing, is discussed in the **How the Results Change When the Assumptions Change** section of this fiscal note.

Stochastic modeling is another method for assessing risk, which is performed by our office annually to help us demonstrate and assess the effect of unexpected experience under numerous (i.e., thousands of) potential outcomes. This modeling approach allows us to measure how affordability and funded status can change if investment experience, state revenue growth, and inflation do not match our long-term assumptions. As part of our standard annual work, we develop a Select Measures of Pension Risk table to document our findings. This latest Risk Assessment table, as of June 30, 2019, relies on assumptions developed in the *2016 Risk Assessment Assumptions Study (RAAS)*.

We determined that neither using nor updating this table for this pricing was helpful in understanding any changes to plan risk from this bill because it focuses on the state-wide impact to the retirement systems. Instead, we analyzed the risks specific to the impacted plans. Additionally, some assumptions developed in the RAAS may not be applicable to a merger of LEOFF 1 and TRS 1.

Analysis contained in this section is meant to summarize plan-specific risks and focuses mainly on evaluating expected and poor economic scenarios. Better-than-expected economic scenarios also exist and would show more positive outcomes than the expected scenarios. Please see **Appendix C** for more details as well as assumptions used in this analysis.

LEOFF 1 and TRS 1 Merger

We performed risk analysis by first considering the "Expected" pathway of the plan when all future experience matches our assumptions. We then considered scenarios with "Poor Economic Conditions" to demonstrate the impacts of adverse plan experience.

The General Fund-State (GF-S) pension contributions are expressed as the percentage of budget required to fund these plans under current law and under this bill. For context, we estimate TRS 1 funding represents approximately 1.9 percent of the total GF-S budget and comprises 30 percent of the GF-S funding allocated to pensions as of Fiscal Year (FY) 2020.

GF-S Allocated to Pensions *(LEOFF 1 and TRS 1 Only)*				
	2022	2025	2030	2035
Current Law				
Expected	1.7%	1.8%	0.0%	0.0%
Poor Economic Conditions	1.8%	1.9%	0.0%	0.0%
This Bill				
Expected	0.1%	0.0%	0.0%	0.0%
Poor Economic Conditions	0.1%	0.1%	0.6%	0.7%

The merger of LEOFF 1 and TRS 1 results in an earlier expected pay-off of the UAAL, which decreases the short-term required contributions. Under the Expected scenarios, no additional UAAL contributions are required once the plans attain 100 percent funded status. However, under Poor Economic Conditions, the plans may fall below 100 percent funded and require additional contributions. Under this scenario, TRS employers might make smaller required annual UAAL payments to the merged plan for a longer period of time or more frequently than under current law.

If additional contributions are needed, then employers will contribute the greater of the calculated (rolling ten-year amortization) contribution rate or the rate floors defined under current law or this bill. For context, the TRS 1 rate floor is 5.75 percent and the merged plan rate floor is 0.44 percent[1]. The higher rate floor under current law helps TRS 1 recover from poor economic conditions more quickly and reduces future occurrences of UAAL. In comparison, the lower merged plan rate floor (in combination with more pessimistic scenarios) can produce situations where the plan does not react as quickly.

For similar reasons, the likelihood of lower funded status levels also increases under this bill. Please see **Appendix C** for further details.

LEOFF 2 Benefit Improvement

To quantify risk for this provision of the bill we considered the variability in LEOFF 2 contribution rates when future experience deviates from our assumptions. We did not focus on GF-S impacts from LEOFF 2 funding due to the relatively small percentage of GF-S allocated to LEOFF 2 pensions (0.3 percent) compared to TRS 1 (1.9 percent).

To assess contribution rate volatility, we determined the likelihood of total employer contribution rates exceeding 10 percent of pay. We selected this

[1]*Under current law, LEOFF 1 does not have a defined rate floor.*

threshold because it represents an approximate 20 percent increase in currently adopted contribution rates. For context, the total employer contribution rate adopted for the 2021-23 and 2023-25 Biennia is 8.53 percent.

Probability of Total Employer Contribution Rates Above 10%*				
	2022	2025	2030	2035
Current Law	0%	0%	23%	32%
This Bill	0%	0%	33%	39%

**Employees contribute a rate equal to the Total Employer Rate (Local Employer + State).*

Under this bill, the liabilities and long-term expected costs of LEOFF 2 increase. As a result, the probability of contribution rates exceeding 10 percent increases by approximately 5-10 percent over the next fifteen years. In addition, the funded status is expected to drop. For context, the funded status fell below 100 percent in all scenarios where the total employer contribution rate exceeded 10 percent. Please see **Appendix C** for further details.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

In addition to the stochastic analysis described in our **Comments on Risk** section, we performed sensitivity analysis on the one assumption we changed to price this bill – retirement rates in LEOFF 2. The best estimate results of the LEOFF 2 benefit improvement can vary under a different set of assumptions. To determine the sensitivity of the actuarial results, we varied the retirement rates assumption as follows:

1. No change in retirement rates from current law.
2. Double the best estimate scalar from 10 to 20 percent.

The following table shows a comparison of the 25-year budget impacts under these sensitivity runs. Please see **Appendix B** for more information on the retirement rates for this analysis.

LEOFF 2 Sensitivity – Total Employer 25-Year Budgets		
(Dollars in Millions)		
No Retirement Behavior Changes	Best Estimate	Double Assumed Retirement Changes
$478	$557	$628

The actual cost of this bill may vary from our best estimate and may fall outside the range of cost identified in this section. Please see **Appendix C** for more information on changes to risk resulting from this bill.

WHAT THE READER SHOULD KNOW

The Office of the State Actuary ("we") prepared this fiscal note based on our understanding of the bill as of the date shown in the footer. We intend this fiscal note to be used by the Legislature during the 2021 Legislative Session only.

We advise readers of this fiscal note to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this fiscal note as a whole. Distribution of, or reliance on, only parts of this fiscal note could result in its misuse and may mislead others.

ACTUARY'S CERTIFICATION

The undersigned hereby certify that:

1. The actuarial cost and asset valuation methods are appropriate for the purposes of this pricing exercise.
2. The actuarial assumptions used are appropriate for the purposes of this pricing exercise.
3. The data on which this fiscal note is based are sufficient and reliable for the purposes of this pricing exercise.
4. Use of another set of methods, assumptions, and data may also be reasonable, and might produce different results.
5. The risk analysis summarized in this fiscal note involves the interpretation of many factors and the application of professional judgment. We believe that the data, assumptions, and methods used in our **Comments on Risk** section and associated **Appendix C** are reasonable and appropriate for the purposes of this pricing exercise. The use of another set of data, assumptions, and methods, however, could also be reasonable and could produce different results.
6. We prepared this fiscal note for the Legislature during the 2021 Legislative Session.
7. We prepared this fiscal note and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown in the footer of this fiscal note.

The undersigned, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

While this fiscal note is meant to be complete, the undersigned are available to provide extra advice and explanations as needed.

Lisa A. Won, ASA, FCA, MAAA
Deputy State Actuary

Michael T. Harbour, ASA, MAAA
Actuary

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APPENDIX A – LEOFF 1 and TRS 1 Merger

Contribution Savings

The funding policy of the merged plan will apply the expected LEOFF 1 surplus to the merged plan. If all assumptions are realized, this serves to reduce the expected merged plan UAAL and lower the associated future contribution requirements for TRS employers.

To help illustrate, under current law projections, we expect TRS 1 to reach full funding during FY 2026, with the UAAL funded at the current contribution rate minimum (5.75 percent plus any remaining benefit improvement rates). Under this bill, we expect the remaining merged plan UAAL will be funded at the new minimum of 0.44 percent and will be fully funded by the end of FY 2023. The difference between the size of the contribution rate and the period over which these rates are collected produces the savings under this bill.

Calculation of the Merged Plan UAAL Contribution Rate

To calculate the merged plan UAAL contribution rate, as shown in the following table, we used our projection model to estimate assets and liabilities at June 30, 2021, approximately the effective date of the bill and merger of the plans. We used our projection model because material changes have taken place since our most recent published AVR as of June 30, 2019, such as UAAL contributions received and actual investment earnings.

Amortization of the Unfunded Actuarial Accrued Liability (UAAL)*		
(Dollars in Millions)		**LEOFF 1/TRS 1**
a.	**Present Value of Fully Projected Benefits (PVFB)**	$11,717
b.	**Valuation Assets**	$11,655
c.	**Actuarial Present Value of Future Normal Costs**	$5
d.	**UAAL (a - b - c)**	$57
e.	**Amortization Date**	N/A
f.	**Present Value of Projected Salaries**	$67,020
g.	**Contribution Rate Before Adjustments (d / f)**	0.08%
h.	**Minimum Contribution Rate**	0.44%
UAAL Contribution Rates for 2021-2023 (maximum of g and h)		**0.44%**

**Calculated as of June 30, 2021.*

APPENDIX B – LEOFF 2 Benefit Improvement

Retirement Rates

The following table shows our retirement rates assumption for current law, this bill, and our high sensitivity analysis. The low sensitivity analysis assumed no change to retirement behavior from current law.

LEOFF 2 Retirement Rates					
	Current Law	Best Estimate Bill		High Sensitivity	
Age	All Service	Service < 25	Service >= 25	Service < 25	Service >= 25
50	0.03	0.03	0.03	0.03	0.03
51	0.03	0.03	0.03	0.03	0.03
52	0.05	0.05	0.05	0.05	0.05
53	0.09	0.09	0.10	0.09	0.11
54	0.09	0.09	0.10	0.09	0.11
55	0.09	0.09	0.10	0.09	0.11
56	0.09	0.09	0.10	0.09	0.11
57	0.10	0.10	0.11	0.10	0.12
58	0.14	0.14	0.15	0.14	0.17
59	0.15	0.15	0.17	0.15	0.18
60	0.15	0.15	0.17	0.15	0.18
61	0.19	0.19	0.21	0.19	0.23
62	0.23	0.23	0.25	0.23	0.28
63	0.20	0.20	0.22	0.20	0.24
64	0.20	0.20	0.22	0.20	0.24
65-69	0.30	0.30	0.30	0.30	0.30
70	1.00	1.00	1.00	1.00	1.00

We set our best estimate assumption for this bill by changing retirement behavior once members earn 25 YOS. We assumed the average member earning less than 25 YOS will not change behavior. Members in this group have incentive to both continue working later for the improved multiplier and retire earlier with a larger benefit. We expect this behavior offsets and yields no material change in observed retirements.

We assumed members will retire at higher rates after earning 25 YOS since they will have accrued the maximum service years credited at the 2.5 percent multiplier. We expect the incentive to continue working at the 2.0 percent multiplier, after 25 YOS, will diminish. In addition, their benefit is now larger than under current law so we expect that will lead to additional retirements. We made the following adjustments to retirement rates starting at 25 YOS.

- ❖ **Ages 50-52 –** We made no change to retirement rates at these ages. We do not expect the larger benefits under this bill to materially change this behavior because early retirement reductions would apply before age 53.
- ❖ **Ages 53-64 –** We applied an approximate 10 percent scalar to our current law assumption for this age range to account for the increased retirement behavior expected under the bill. The scalar was determined as the

approximate benefit multiplier ratio under current law and this bill of the average LEOFF 2 member projected to retirement. We considered a larger adjustment to the assumption but believe the individual costs associated with retiring prior to Medicare and Social Security eligibility will limit the number of additional early retirements.

- **Ages 65+ –** We made no change to retirement behavior for this group. Few LEOFF 2 members remain active beyond 65 and we do not expect the improved benefits under this bill will significantly change their behavior.

L2-BIA Transfer and Annuitant Lump Sum Payout

We relied on our June 30, 2019, valuation data for the value of the L2-BIA and to estimate the number of annuitants eligible for the $20,000 lump sum benefit. Eligible annuitants must have at least 15 YOS to be eligible for the lump sum benefit. Additionally, survivors of members experiencing a duty-related death are eligible regardless of service level. We discounted the total lump sum amount 2.5 years using the investment return assumption of 7.4 percent from the payout date in January 2022 to the measurement date of June 30, 2019. The following table details these calculations and the total asset changes to LEOFF 2.

LEOFF 2 Asset Changes	
(Dollars in Millions)	
Total Eligible Annuitants	5,218
Annuitant Lump Sum in January 2022 (Eligible Annuitants x $20,000 Benefit)	($104)
(A) Annuitant Lump Sum Discounted 2.5 Years to June 30, 2019	**(87)**
(B) L2-BIA at June 30, 2019	**322**
Total LEOFF 2 Asset Change (A) + (B)	**$235**

LEOFF 2 Board Funding Policy and Projected Contribution Rates

The Board sets funding policy and adopts contribution rates for the plan. Their funding policy sets contribution rates equal to the greater of the rate under the Aggregate cost method or minimum rate. The minimum rate is set at 100 percent of the Normal Cost under the Entry Age Normal Cost method and reduces to 90 percent when the funded status of the plan exceeds 105 percent. This policy seeks to maintain relatively stable contribution rates between biennia.

For this benefit improvement we observed a larger increase in contribution rates under the Aggregate calculation than the minimum rate. However, the Board's funding policy is still projected to select 90 percent of the minimum rate starting in the 2025-27 Biennium based on the estimated funded status.

The following table shows our projection of contribution rates and funded status over the next 5 biennia. Note, we expect no change in 2021-23 and 2023-25 contribution rates because the Board has already adopted rates for this period and the bill caps rates at that level.

Projected LEOFF 2 Contribution Rates and Funded Status					
Biennium	2021-23	2023-25	2025-27	2027-29	2029-31
Current Law					
Employee	8.53%	8.53%	7.74%	7.78%	7.82%
Employer	5.12%	5.12%	4.64%	4.67%	4.69%
State	3.41%	3.41%	3.10%	3.11%	3.13%
Funded Status*	112.6%	113.2%	113.4%	113.3%	113.3%
This Bill					
Employee	8.53%	8.53%	8.36%	8.40%	8.44%
Employer	5.12%	5.12%	5.02%	5.04%	5.06%
State	3.41%	3.41%	3.34%	3.36%	3.38%
Funded Status*	108.3%	108.4%	108.1%	107.8%	107.6%
Difference					
Employee	0.00%	0.00%	0.62%	0.62%	0.62%
Employer	0.00%	0.00%	0.38%	0.37%	0.37%
State	0.00%	0.00%	0.24%	0.25%	0.25%
Funded Status*	(4.3%)	(4.8%)	(5.4%)	(5.5%)	(5.7%)

Note: Totals may not agree due to rounding
**Funded status calculated at the start of the biennium*

The funded status under current law and this bill stays above 105 percent for future biennia if all future plan experience matches our current assumptions. This means contribution rates will follow the 90 percent minimum rate under current Board funding policies.

APPENDIX C –Risk Analysis

Assumptions Used

Our stochastic projections model considers how the contribution requirements can change under varying economic outlooks. For this analysis, we assume no funding shortfalls (or rather, all employers will make their full contributions) up to a defined system maximum contribution rate. Additionally, we assume no future benefit improvements to these retirement plans. Please see our RAAS and our Projection Disclosures webpage for additional details on the underlying assumptions of the model.

The displayed tables and graphs include scenarios defined as "Expected" and "Poor Economic Conditions". The Expected scenario summarizes how metrics can look if all future experience matches our assumptions. The Poor Economic Conditions scenario summarizes the impacts under less favorable economic outcomes. More specifically, the 25th percentile of our 2,000 scenarios. As an example, the 25th percentile for the Simulated Annual Investment Returns in any given year is (1.27) percent.

Additional Commentary on Risk

The **Comments on Risk** section in the fiscal note focused on plan-specific impacts, whereas this appendix also includes how this bill impacts certain statewide risks.

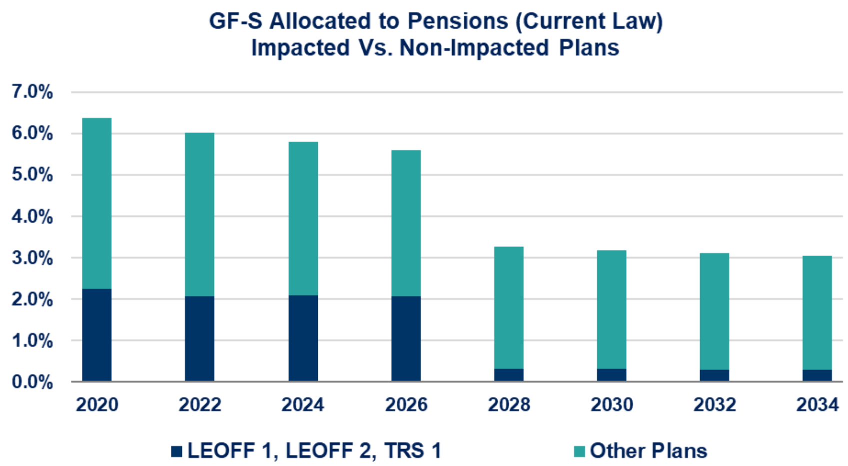
Impact on Contributions

The potential for actual future contributions deviating from expected future contributions (also known as contribution risk) was considered. Dependent upon the simulated economic outlook, contributions may be higher (or lower) than we expect using assumptions consistent with our AVR. To help understand the potential variability in contributions and their affordability, we considered how the future GF-S pension contributions can change, relative to GF-S budget, before and after this bill. We use GF-S as a comparison point or proxy for what is "affordable" to the state.

As background, it is helpful to understand how the annual pension contributions as a percent of GF-S is expected to change and why. The following graph displays the expected portion of the GF-S budget allocated to pensions, under current law. This allocation is expected to decline over the next few years due to two factors:

1. A projected decline in contribution rates; and
2. The closed plans attaining 100 percent funded status which results in no further expected UAAL contributions.

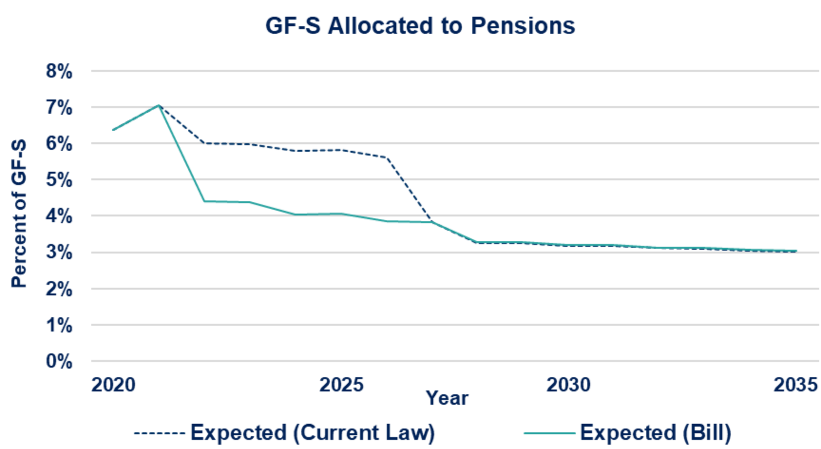
TRS and PERS Plans 1 are expected to attain 100 percent funding in FYs 2026 and 2027, respectively, which explains a majority of the decline in contributions from 2026 to 2028.



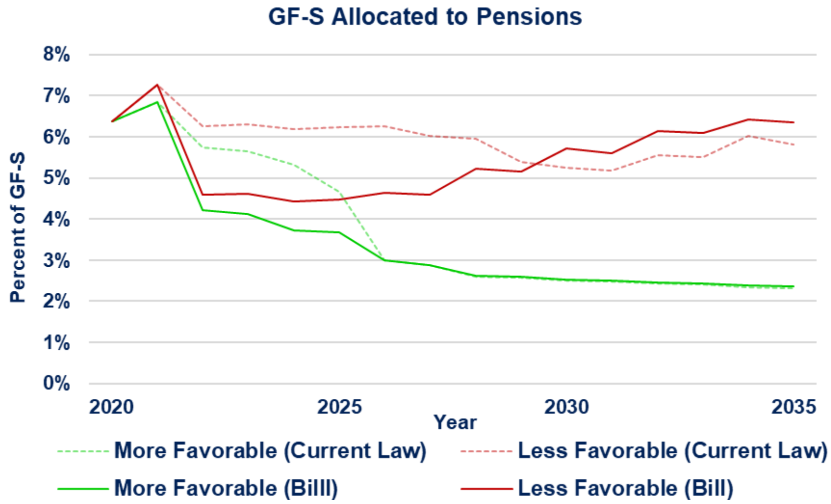
The previous graph also shows the portion of the impacted plans and their GF-S contributions relative to non-impacted plans. Currently, LEOFF 1, LEOFF 2, and TRS 1 are 0 percent, 0.3 percent, and 1.9 percent of the GF-S allocation to pensions, respectively. Following the expected payoff of the TRS 1 UAAL, the remaining portion of GF-S for the impacted plans represents the ongoing costs for LEOFF 2.

If a LEOFF 1 UAAL were to re-emerge under current law, our understanding is the state would pay 100 percent of the contributions. By comparison, under the merged plan, we assume any UAAL contributions will be paid by TRS employers with 87 percent of funding dollars coming from the state and 13 percent from local government.

This bill is expected to result in an earlier payoff of the merged plan UAAL, which decreases short-term pension contributions. The following graph displays the expected change in GF-S allocated to pensions as a result of this bill.



However, this expected decline in percent of GF-S does not mean the bill is more affordable under all economic scenarios. The following graph shows how these trends vary under less favorable and more favorable economic scenarios. Fifty percent of our 2,000 economic simulations were between these two lines, 25 percent were higher, and 25 percent were lower.



Impact to Funded Status

Another risk metric is the impact to future funded status of the plans. In general, the bill results in a higher likelihood of the plans falling below 90 percent funded status. We selected a 90 percent threshold, instead of 100 percent, because we expect natural variation in plan funded status around 100 percent as a result of normal investment return volatility. The following table summarizes this likelihood based on our 2,000 simulated economic scenarios.

Likelihood of Funded Status Less Than 90%				
	2022	2025	2030	2035
Current Law				
TRS1	99%	30%	13%	17%
LEOFF 1	0%	1%	6%	10%
LEOFF 2	1%	7%	24%	29%
Bill				
LEOFF 1/TRS 1	4%	28%	41%	43%
LEOFF 2	1%	11%	28%	31%

GLOSSARY OF ACTUARIAL TERMS

Actuarial Accrued Liability: Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the present value of fully projected benefits attributable to service credit that has been earned (or accrued) as of the valuation date.

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions (i.e., interest rate, rate of salary increases, mortality, etc.).

Aggregate Funding Method: The Aggregate Funding Method is a standard actuarial funding method. The annual cost of benefits under the Aggregate Method is equal to the normal cost. Under this method, all plan costs (for past and future service credit) are included under the normal cost. Therefore, the method does not produce an unfunded actuarial accrued liability outside the normal cost. It's most common for the normal cost to be determined for the entire group rather than on an individual basis for this method.

Entry Age Normal Cost Method (EANC): The EANC method is a standard actuarial funding method. The annual cost of benefits under EANC is comprised of two components:

- ❖ Normal cost.
- ❖ Amortization of the unfunded actuarial accrued liability.

The normal cost is most commonly determined on an individual basis, from a member's age at plan entry, and is designed to be a level percentage of pay throughout a member's career.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Projected Benefits: Pension benefit amounts that are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Unfunded Actuarial Accrued Liability (UAAL): The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by plan assets.

Unfunded EAN Liability: The excess, if any, of the present value of benefits calculated under the EAN cost method over the valuation assets. This is the portion of all benefits earned to date that are not covered by plan assets.

GLOSSARY OF RISK TERMS

Affordability Risk: Measures the affordability of the pension systems. Affordability risk measures the chance that pension contributions will cross certain thresholds with regards to the General Fund and contribution rates.

"Current Law": Scenarios in which assumptions about legislative behavior are excluded. These scenarios show projections regarding the current state of Washington statutes.

Funded Status: The ratio of a plan's current assets to the present value of earned pensions. There are several acceptable methods of measuring a plan's assets and liabilities. In financial reporting of public pension plans, funded status is reported using consistent measures by all governmental entities. According to the Government Accounting Standards Board (GASB), the funded ratio equals the actuarial value of assets divided by the actuarial accrued liability calculated under the allowable actuarial methods.

Optimistic: A measurement of the pension system under favorable conditions (above expected investment returns, for example). Optimistic refers to the 75^{th} percentile, where there is a 25 percent chance of the measurement being better and 75 percent chance of the measurement being worse. Very optimistic refers to the 95^{th} percentile.

"Past Practices": Scenarios in which assumptions regarding legislative behavior are introduced. These assumptions include actual contributions below what are actuarially required and improving benefits over time. These scenarios are meant to project past behavior into the future.

Pay-Go: The trust fund runs out of assets, and payments from the General Fund must be made to meet contractual obligations.

Pessimistic: A measurement of the pension system under unfavorable conditions (below expected investment returns, for example). Pessimistic refers to the 25^{th} percentile, where there is a 75 percent chance of the measurement being better and 25 percent chance of the measurement being worse. Very pessimistic refers to the 5^{th} percentile.

Premature Pay-Go: Pay-go payments, measured in today's value, which might be considered "significant" in terms of the potential impact on the General Fund.

Risk Tolerance: The amount of risk an individual or group is willing to accept with regards to the likelihood and severity of unfavorable outcomes.

Solvency Risk: Measures the risk metrics of the pension systems, including the chance that the pension systems will prematurely run out of assets, the amount of potential pay-go contributions, and the chance that the funded status will cross a certain threshold.

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 5453 SB	**Title:** Retirement plans 1 & 2

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- [ ] Cities:
- [ ] Counties:
- [ ] Special Districts:
- [ ] Specific jurisdictions only:
- [ ] Variance occurs due to:

Part II: Estimates

- [X] No fiscal impacts.
- [ ] Expenditures represent one-time costs:
- [ ] Legislation provides local option:
- [ ] Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

None

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Tracy Schreiber	Phone: 360-725-3126	Date: 02/24/2021
Leg. Committee Contact: Amanda Cecil	Phone: 360-786-7460	Date: 02/18/2021
Agency Approval: Alice Zillah	Phone: 360-725-5035	Date: 02/24/2021
OFM Review: Jane Sakson	Phone: 360-902-0549	Date: 02/25/2021

Part IV: Analysis

A. SUMMARY OF BILL

Provide a clear, succinct description of the bill with an emphasis on how it impacts local government.

This legislation proposes merging the LEOFF Plan 1 and the Teachers Retirement System Plan 1 into a new retirement system called "the merged LEOFF1/TRS1 retirement plan." The legislation would provide a $20,000 payment distributed by the Department of Retirement Services to all LEOFF Plan 1 members and survivors and a $20,000 payment to all LEOFF Plan 2 retirees or survivors with at least 15 years of service.

The legislation creates a new section in RCW Chapter 41 and amends other current legislation respectively to allow the transfer of funds and permit the merger; and updates current legislation to reflect the proposed, new retirement plan.

B. SUMMARY OF EXPENDITURE IMPACTS

Briefly describe and quantify the expenditure impacts of the legislation on local governments, identifying the expenditure provisions by section number, and when appropriate, the detail of expenditures. Delineate between city, county and special district impacts.

This legislation would not impact local government expenditures. Existing procedures between local governments and LEOFF Plan 1 retirees would not be impacted, therefore, it is not anticipated that any additional costs would be incurred.

C. SUMMARY OF REVENUE IMPACTS

Briefly describe and quantify the revenue impacts of the legislation on local governments, identifying the revenue provisions by section number, and when appropriate, the detail of revenue sources. Delineate between city, county and special district impacts.

This legislation would not impact local government revenues.

SOURCES
Department of Retirement Systems (DRS)
LEOFF Plan 2 Retirement Board
Washington Association of Counties (WSAC)